

City of Dearborn Heights, Michigan

Financial Report with Supplemental Information June 30, 2003

City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the City Council
City of Dearborn Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Dearborn Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 15, the City has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

Plante & Moran, PLLC

October 7, 2003

City of Dearborn Heights, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Dearborn Heights, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the significant financial highlights for the year ended June 30, 2003:

- The financial statements for the year ended June 30, 2003 reflect complete implementation of Governmental Accounting Standards Board Statement Number 34 which significantly changed the content and format of municipal financial reporting. Accordingly, these statements present both entity-wide financial reporting for all governmental and business activities in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balances for the total governmental funds to the change in net assets is provided within the statements.
- Property taxes are the City's single, largest source of revenue. The City's gross tax base, taxable value, for the current fiscal year 2003 was \$1,300,027,611, which represents an increase of \$29,808,460 over the prior year's tax base. This represents an increase of 2.3 percent.
- State-shared revenue, the second largest revenue source of the Corporate Fund, was reduced by the State of Michigan by approximately \$340,000 this year. This represents a 4.7 percent reduction from the prior year.
- The City monitors discretionary spending by performing monthly budget reports and amendments. As a result of close monitoring, and the non-replacement of certain positions, the fund balance of the Corporate Fund decreased by approximately \$38,000.
- To offset the increasing cost of fringe benefit packages and liability insurance, the City had to eliminate, through attrition, 14 positions in the 2003 fiscal year. With the elimination of these positions, elimination of a contribution to the Library Fund, and elimination of the sidewalk replacement program, the City was able to almost offset the current year loss of revenue sharing and the increases in other expenditures accounted for in the Corporate Fund.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Dearborn Heights, Michigan as a whole and present a longer-term view of the City's finances. This longer term view utilizes the accrual basis of accounting in order to measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they illustrate how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements, by providing information about the City's most significant (major) funds. In addition, the fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2003 and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current assets	\$ 12,047,474	\$ 9,964,912	\$ 9,853,708	\$ 3,696,651	\$ 21,901,182	\$ 13,661,563
Noncurrent assets	44,036,067	43,430,537	94,881,177	100,743,736	138,917,244	144,174,273
Total assets	56,083,541	53,395,449	104,734,885	104,440,387	160,818,426	157,835,836
Liabilities						
Current liabilities	5,427,842	4,704,274	6,625,080	6,278,531	12,052,922	10,982,805
Long-term liabilities	9,251,362	9,325,974	41,827,559	44,568,430	51,078,921	53,894,404
Total liabilities	14,679,204	14,030,248	48,452,639	50,846,961	63,131,843	64,877,209
Net Assets						
Invested in capital assets -						
Net of related debt	39,226,909	38,922,658	44,371,090	43,585,383	83,597,999	82,508,041
Restricted	6,258,566	4,630,801	8,245,851	-	14,504,417	4,630,801
Unrestricted net assets (deficit)	(4,081,138)	(4,188,258)	3,665,305	10,008,043	(415,833)	5,819,785
Total net assets	<u>\$ 41,404,337</u>	<u>\$ 39,365,201</u>	<u>\$ 56,282,246</u>	<u>\$ 53,593,426</u>	<u>\$ 97,686,583</u>	<u>\$ 92,958,627</u>

The City's combined net assets increased 5 percent from a year ago - increasing from \$92.9 million to \$97.7 million.

Unrestricted net assets of the governmental activities - the part of net assets that can be used to finance day-to-day operations - decreased by \$107,000. This represents a decrease of approximately 2.6 percent.

The increase in total net assets of the business-type activities of \$2.7 million relates to the planned increase for future capital improvements in the water and sewer systems.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year, and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenue						
Program revenue:						
Charges for services	\$ 5,404,346	\$ 5,431,639	\$ 12,413,289	\$ 10,762,909	\$ 17,817,635	\$ 16,194,548
Operating grants and contributions	5,835,507	4,858,785	-	-	5,835,507	4,858,785
Capital grants and contributions	2,206,515	2,311,157	660,816	854,014	2,867,331	3,165,171
General revenue:						
Property taxes	17,759,817	16,928,698	4,601,833	5,262,212	22,361,650	22,190,910
State-shared revenue	6,757,647	7,063,052	-	-	6,757,647	7,063,052
Unrestricted investment earnings	252,884	323,669	177,034	653,025	429,918	976,694
Franchise fees	581,661	621,735	-	-	581,661	621,735
Loss on disposal of assets	(82,673)	-	-	-	(82,673)	-
Total revenue	38,715,704	37,538,735	17,852,972	17,532,160	56,568,676	55,070,895
Program Expenses						
General government	6,921,105	7,578,661	-	-	6,921,105	7,578,661
Public safety	17,969,054	17,390,153	-	-	17,969,054	17,390,153
Public works	8,917,813	7,432,269	-	-	8,917,813	7,432,269
Community and economic development	438,111	386,055	-	-	438,111	386,055
Recreation and culture	2,212,969	2,477,835	-	-	2,212,969	2,477,835
Interest on long-term debt	217,516	239,157	-	-	217,516	239,157
Water and sewer	-	-	15,164,152	14,632,029	15,164,152	14,632,029
Total expenses	36,676,568	35,504,130	15,164,152	14,632,029	51,840,720	50,136,159
Change in Net Assets	\$ 2,039,136	\$ 2,034,605	\$ 2,688,820	\$ 2,900,131	\$ 4,727,956	\$ 4,934,736

Governmental Activities

Looking at the governmental activities, it is evident that, in total, revenues increased slightly and expenses increased at a slightly higher rate for the 2003 fiscal year compared to the 2002 fiscal year. This is an expected trend for a mature, bedroom community such as Dearborn Heights.

In fiscal year 2003, there were decreases experienced in several revenue categories and the overall budget. These decreased revenues are partially due to statewide economic conditions. The revenue categories impacted include State-shared revenue, investment earnings, and the sidewalk replacement program. Those losses of revenue were offset by a slight increase in property tax revenue and cutbacks in expenses. The increase in the property tax base is a result of inflationary increases in existing parcels (under Proposal A) and some limited new construction. There was no increase in the operating millage rate. The total City millage rate continues to be reduced annually by the Headlee reduction fraction.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

As expected, expenses in the Corporate Fund decreased from 2002 levels by approximately \$715,000, which is approximately a 2.1 percent decrease. Decreases were incurred in most departments due to lower head count and reduced capital outlay. Other major items included the reduction of some City services, elimination of the sidewalk replacement program, and elimination of the library contribution. All departments experienced increases in personnel costs due to higher health care costs as well as liability insurance. The decrease in recreation is attributed to the elimination of programs that did not cover a majority of their own costs and elimination of all allocation to the senior citizen clubs and little leagues.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City maintains transmission lines that allow customers to receive water from the Detroit water system and deliver it to our residents. Sewage treatment is provided through Wayne County's Rouge Valley and Downriver Sewage Disposal Systems.

Overall, expenses of business activities remained fairly stable due to decreases in personnel, capital outlay, and other items. Operating revenue increased approximately 15 percent, which allowed the fund to reduce its operating loss by over 60 percent compared to the prior year. Due to the improved financial condition of business activities in recent years, the City has been able to absorb a portion of the rate increases from the City of Detroit for water purchases and Wayne County for sewer system charges. The water and sewer rates from those entities increased 14.2 percent and an average of 6.5 percent, respectively. The City has been able to improve the financial position of this fund by concentrating efforts on reducing the cost of interest on debt, performing long-term planning of capital needs, and performing semi-annual leak detection studies.

The City's Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2003 include the Corporate Fund, Major Streets Fund, and Local Streets Fund.

Corporate Fund Budgetary Highlights

The Corporate Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City. The budget is essentially a "maintenance" budget which means it usually increases modestly from year to year. The budget is monitored closely and amended when needed. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of fiscal year 2003, the City (excluding component units) had approximately \$132 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines. The debt related to the acquisition and construction of these assets at June 30, 2003 was approximately \$49 million.

Economic Factors and Next Year's Budgets and Rates

The general operating millage can not be increased next year since the City is at its maximum millage rate per Headlee. State-shared revenue has been budgeted by the State at an amount that is significantly less than the current year receipts. Certain expenditures are assumed to continue to increase beyond the rate of inflation, such as health care insurance and liability insurance. However, by limiting other categories of expenditures, continuing to drastically limit capital expenditures, revisiting how certain services are delivered, and eliminating personnel through attrition, the City was able to balance its budget for fiscal year 2004.

Water rates from the City of Detroit will increase 4.8 percent and the sewer rates from Wayne County will increase an average of 6 percent. Due to the City's decreasing debt load, programmed system improvements, and controlled water loss, the impact of the suppliers' rate increases will again be minimized on the City's customers. There is anticipated to be an overall increase of approximately 6 percent effective December 1, 2003 for water and sewer rates.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Dearborn Heights, Michigan's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's Finance Office at 6045 Fenton, Dearborn Heights, Michigan 48127, or via the City's Web site at compoff@dhoh.org.

City of Dearborn Heights, Michigan

Statement of Net Assets June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 8,030,629	\$ 6,195,760	\$ 14,226,389	\$ 10,470,732
Receivables - Net:				
Taxes	1,441,261	-	1,441,261	-
Customers	-	3,527,855	3,527,855	-
Other	192,307	-	192,307	-
Internal balances	71,737	(71,737)	-	-
Due from other governmental units	2,156,193	-	2,156,193	-
Due from component unit	155,347	-	155,347	-
Due from primary government	-	-	-	40,344
Due from Agency Fund	-	-	-	45,925
Inventories, prepaids, and other assets	-	201,830	201,830	6,611
Restricted assets (Note 8)	-	5,997,488	5,997,488	-
Investment in joint venture	637,815	-	637,815	-
Capital assets - Net (Note 5)	<u>43,398,252</u>	<u>88,883,689</u>	<u>132,281,941</u>	<u>24,290,779</u>
Total assets	56,083,541	104,734,885	160,818,426	34,854,391
Liabilities				
Accounts payable	1,964,260	3,253,394	5,217,654	1,163,512
Accrued and other liabilities	678,542	358,759	1,037,301	279,775
Due to other governmental units	290,570	-	290,570	-
Due to component unit	40,344	-	40,344	-
Due to primary government	-	-	-	155,347
Deposits	325	68,352	68,677	-
Deferred revenue (Note 4)	264,676	-	264,676	-
Workers' compensation liability	273,730	-	273,730	-
General insurance liability	873,064	-	873,064	-
Compensated absences:				
Due within one year	1,832,782	103,121	1,935,903	-
Due in more than one year	4,123,718	156,414	4,280,132	-
Long-term debt (Note 7):				
Due within one year	356,343	2,841,454	3,197,797	585,000
Due in more than one year	3,815,000	41,671,145	45,486,145	26,415,000
Other long-term liabilities	<u>165,850</u>	<u>-</u>	<u>165,850</u>	<u>-</u>
Total liabilities	<u>14,679,204</u>	<u>48,452,639</u>	<u>63,131,843</u>	<u>28,598,634</u>
Net Assets				
Invested in capital assets - Net of related debt	39,226,909	44,371,090	83,597,999	(32,660)
Restricted:				
Streets and highways	2,765,992	-	2,765,992	-
Debt service	456,979	5,997,488	6,454,467	-
Capital projects	76,516	2,248,363	2,324,879	-
Library expenses	2,421,887	-	2,421,887	-
Other purposes	537,192	-	537,192	-
Unrestricted	<u>(4,081,138)</u>	<u>3,665,305</u>	<u>(415,833)</u>	<u>6,288,417</u>
Total net assets	<u>\$ 41,404,337</u>	<u>\$ 56,282,246</u>	<u>\$ 97,686,583</u>	<u>\$ 6,255,757</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Dearborn Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,921,105	\$ 746,840	\$ 237,872	\$ -
Public safety	17,969,054	3,232,256	207,747	156,250
Public works	8,917,813	1,140,704	4,388,677	1,965,693
Community and economic development	438,111	-	259,201	-
Recreation and culture	2,212,969	284,546	742,010	84,572
Interest on long-term debt	217,516	-	-	-
Total governmental activities	36,676,568	5,404,346	5,835,507	2,206,515
Business-type activities - Water and sewer	15,164,152	12,413,289	-	660,816
Total primary government	<u>\$ 51,840,720</u>	<u>\$ 17,817,635</u>	<u>\$ 5,835,507</u>	<u>\$ 2,867,331</u>
Component units:				
Tax Increment Finance Authority	\$ 2,716,562	\$ -	\$ -	\$ -
Economic Development Corporation	-	-	-	-
Brownfield Redevelopment Authority	6,429	-	-	-
Total component units	<u>\$ 2,722,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
General property taxes				
Water and sewer millage property taxes				
State-shared revenues				
Unrestricted investment earnings				
Unrestricted franchise fees				
Loss on disposal of assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (5,936,393)	\$ -	\$ (5,936,393)	\$ -
(14,372,801)	-	(14,372,801)	-
(1,422,739)	-	(1,422,739)	-
(178,910)	-	(178,910)	-
(1,101,841)	-	(1,101,841)	-
(217,516)	-	(217,516)	-
(23,230,200)	-	(23,230,200)	-
-	(2,090,047)	(2,090,047)	-
(23,230,200)	(2,090,047)	(25,320,247)	-
-	-	-	(2,716,562)
-	-	-	-
-	-	-	(6,429)
-	-	-	(2,722,991)
17,759,817	-	17,759,817	3,105,173
-	4,601,833	4,601,833	-
6,757,647	-	6,757,647	-
252,884	177,034	429,918	569,138
581,661	-	581,661	-
(82,673)	-	(82,673)	-
25,269,336	4,778,867	30,048,203	3,674,311
2,039,136	2,688,820	4,727,956	951,320
39,365,201	53,593,426	92,958,627	5,304,437
\$ 41,404,337	\$ 56,282,246	\$ 97,686,583	\$ 6,255,757

City of Dearborn Heights, Michigan

Governmental Funds Balance Sheet June 30, 2003

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 2,334,826	\$ 866,172	\$ 1,837,633	\$ 2,991,998	\$ 8,030,629
Receivables:					
Taxes - Net of allowance for doubtful accounts of \$361,416	1,441,261	-	-	-	1,441,261
Other	192,307	-	-	-	192,307
Due from other governmental units	1,568,313	390,123	158,504	39,253	2,156,193
Due from other funds	562,247	-	-	527,722	1,089,969
Due from component units	426	-	-	154,921	155,347
Total assets	<u>\$ 6,099,380</u>	<u>\$ 1,256,295</u>	<u>\$ 1,996,137</u>	<u>\$ 3,713,894</u>	<u>\$ 13,065,706</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,374,114	\$ 3,683	\$ -	\$ 586,463	\$ 1,964,260
Accrued and other liabilities	793,690	-	-	-	793,690
Amounts due to retirees	449,894	-	-	-	449,894
Due to other governmental units	290,570	-	-	-	290,570
Due to other funds	527,722	274,104	208,653	7,753	1,018,232
Due to component unit	40,344	-	-	-	40,344
Deposits	-	-	-	325	325
Deferred revenue (Note 4)	237,804	-	-	264,676	502,480
Total liabilities	3,714,138	277,787	208,653	859,217	5,059,795
Fund Balances					
Reserved for (Note 12):					
Capital projects	-	-	-	76,516	76,516
Debt service	456,979	-	-	-	456,979
Cable improvements	180,918	-	-	-	180,918
Unreserved, reported in (Note 12):					
Corporate Fund	1,747,345	-	-	-	1,747,345
Special Revenue Funds	-	978,508	1,787,484	2,778,161	5,544,153
Total fund balances	<u>2,385,242</u>	<u>978,508</u>	<u>1,787,484</u>	<u>2,854,677</u>	<u>8,005,911</u>
Total liabilities and fund balances	<u>\$ 6,099,380</u>	<u>\$ 1,256,295</u>	<u>\$ 1,996,137</u>	<u>\$ 3,713,894</u>	<u>\$ 13,065,706</u>

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2003

Fund Balances - Total Governmental Funds	\$ 8,005,911
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	43,398,252
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	237,804
Investments in joint ventures are included as part of governmental activities	637,815
Long-term debt not due and payable in the current period is not reported in the funds	(4,171,343)
Interest payable is not accrued in the funds	(50,702)
Compensated absences are not included as a liability of the funds	(5,506,606)
General insurance liability is not included as a liability of the funds	(873,064)
Worker's compensation liability is not included as a liability of the funds	<u>(273,730)</u>
Net Assets of Governmental Activities	<u>\$ 41,404,337</u>

City of Dearborn Heights, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2003

	Corporate	Major Streets	Local Streets	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
General property taxes	\$ 16,358,592	\$ -	\$ -	\$ 1,401,225	\$ 17,759,817
Licenses and permits	942,784	-	-	-	942,784
Federal grants	-	808,225	-	2,153,077	2,961,302
State-shared revenues, grants, and other					
State aid	6,903,572	2,386,890	917,929	274,565	10,482,956
Local revenue	-	69,849	279,394	-	349,243
Charges for services	1,894,124	-	-	-	1,894,124
Fines and forfeitures	2,218,992	-	-	275,548	2,494,540
Interest income	170,414	10,175	26,298	46,034	252,921
Drug enforcement revenue	-	-	-	113,018	113,018
Other	1,474,778	-	5,356	-	1,480,134
Total revenues	29,963,256	3,275,139	1,228,977	4,263,467	38,730,839
Expenditures					
Current:					
General government	7,101,929	-	-	-	7,101,929
Public safety	17,436,489	-	-	433,390	17,869,879
Public works	4,140,283	2,795,577	1,201,398	-	8,137,258
Community and economic development	176,622	-	-	2,237,698	2,414,320
Recreation and culture	914,330	-	-	622,816	1,537,146
Capital outlay	-	-	-	454,528	454,528
Debt service	-	-	-	231,543	231,543
Total expenditures	29,769,653	2,795,577	1,201,398	3,979,975	37,746,603
Excess of Revenues Over Expenditures	193,603	479,562	27,579	283,492	984,236
Other Financing Sources (Uses)					
Transfers in	-	-	-	686,071	686,071
Transfers out	(231,543)	-	-	(454,528)	(686,071)
Total other financing sources (uses)	(231,543)	-	-	231,543	-
Net Change in Fund Balances	(37,940)	479,562	27,579	515,035	984,236
Fund Balances - Beginning of year	2,423,182	498,946	1,759,905	2,339,642	7,021,675
Fund Balances - End of year	\$ 2,385,242	\$ 978,508	\$ 1,787,484	\$ 2,854,677	\$ 8,005,911

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$ 984,236
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	2,732,855
Governmental funds depreciation expense on fixed assets are reported as an expense on the statement of activities and are not reported as an expense for fund purposes	(2,454,173)
Governmental funds report the proceeds from sale of fixed assets as revenue; in the statement of activities, these losses are based upon proceeds less net book value of the asset	(106,273)
Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the governmental-wide statements.	91,175
Net gain from the joint venture is not recorded in the governmental funds, but is recorded in the statement of activities	433,121
Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	336,536
Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expenses based upon accrued expense	4,573
Decrease in estimated general liability claims is recorded in the statement of activities	96,733
Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	<u>(79,647)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,039,136</u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Net Assets June 30, 2003

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 6,195,760
Customer receivables	3,527,855
Inventories, prepaids, and other assets	<u>201,830</u>
Total current assets	9,925,445
Noncurrent assets:	
Restricted assets (Note 8)	5,997,488
Capital assets (Note 5)	<u>88,883,689</u>
Total noncurrent assets	<u>94,881,177</u>
Total assets	104,806,622
Liabilities	
Current liabilities:	
Accounts payable	3,253,394
Accrued and other liabilities	358,759
Due to other funds (Note 6)	71,737
Deposits	68,352
Current portion of compensated absences	103,121
Current portion of long-term debt (Note 7)	<u>2,841,454</u>
Total current liabilities	6,696,817
Noncurrent liabilities:	
Provision for compensated absences - Net of current portion	156,414
Long-term debt - Net of current portion (Note 7)	<u>41,671,145</u>
Total noncurrent liabilities	<u>41,827,559</u>
Total liabilities	<u>48,524,376</u>
Net Assets	
Investment in capital assets - Net of related debt	44,371,090
Restricted for debt payments	5,997,488
Restricted for capital projects	2,248,363
Unrestricted	<u>3,665,305</u>
Total net assets	<u>\$ 56,282,246</u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2003

	Enterprise - Water and Sewer Fund
Operating Revenues	
Water and sewer services	\$ 12,006,852
Other operating revenue	<u>406,437</u>
Total operating revenues	12,413,289
Operating Expenses	
Water and sewage disposal charges	6,735,981
Transmission and distribution expense	1,164,595
Administrative and general expense	2,326,886
Depreciation	2,443,973
Other operating expenses	<u>775,994</u>
Total operating expenses	<u>13,447,429</u>
Operating Loss	(1,034,140)
Nonoperating Revenue (Expense)	
Interest earned on investments	177,034
Interest expense	(1,716,723)
Property taxes	<u>4,601,833</u>
Total operating loss and nonoperating revenue (expense)	2,028,004
Capital Contributions	<u>660,816</u>
Change in Net Assets	2,688,820
Net Assets - Beginning of year	<u>53,593,426</u>
Net Assets - End of year	<u><u>\$ 56,282,246</u></u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2003

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 11,828,993
Payments to suppliers	(7,867,068)
Payments to employees	(2,127,296)
Internal activity - Payments to other funds	(55,874)
Other payments	(775,994)
Net cash provided by operating activities	1,002,761
Cash Flows from Capital and Related Financing Activities	
Proceeds from property tax levy (restricted for debt service)	4,601,833
Property taxes turned over to the County	(1,679,903)
Refund of CSO restricted deposits	3,676,418
Principal and interest paid on long-term debt	(2,383,844)
Purchase of capital assets	(155,261)
Capital contributions	221,215
Net cash provided by capital and related financing activities	4,280,458
Cash Flows from Investing Activities - Interest received on investments	42,442
Net Increase in Cash and Cash Equivalents	5,325,661
Cash and Cash Equivalents - Beginning of year	870,099
Cash and Cash Equivalents - End of year	\$ 6,195,760
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating loss	\$ (1,034,140)
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	2,443,973
Changes in assets and liabilities:	
Receivables	(573,692)
Other assets	(7,532)
Accounts payable	293,887
Accrued liabilities	(53,257)
Due to other funds	(55,874)
Deposits	(10,604)
Net cash provided by operating activities	\$ 1,002,761

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2003, the Tax Increment Finance Authority constructed water line improvements with a value of \$384,929 and donated them to the City. Developers constructed water line improvements with a value of \$54,672 and donated them to the City. Water and sewer system assets with a value of \$10,470 were constructed with funds held at Wayne County and deposits at the State of Michigan. The City is also amortizing deferred charges on bond refundings, which amounted to \$110,470 in the current year. Wayne County used \$1,957,227 of deposits held on behalf of the City to retire debt. Interest income totaling \$134,592 was earned on funds held at Wayne County.

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension Trust Funds	Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 10,532,179	\$ 143,873
Marketable securities (Note 3)	125,588,789	-
Cash held as collateral for securities lending (Note 3)	13,737,314	-
Other receivables	176,542	-
Total assets	150,034,824	<u><u>\$ 143,873</u></u>
Liabilities		
Accounts payable	733,834	\$ -
Accrued and other liabilities	-	97,948
Due to Brownfield Authority	-	45,925
Collateral for securities lending (Note 3)	13,737,314	-
Total liabilities	14,471,148	<u><u>\$ 143,873</u></u>
Net Assets - Held in trust for employees' retirement systems	<u><u>\$ 135,563,676</u></u>	

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year End June 30, 2003

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 4,249,144
Net increase in fair value of investments	<u>3,115,976</u>
Net investment income	7,365,120
Contributions:	
Employer	2,342,806
Employee	<u>492,924</u>
Total contributions	2,835,730
Securities lending income:	
Interest and fees	212,488
Less borrower rebates and bank fees	<u>(171,670)</u>
Net securities lending income	40,818
Total additions	10,241,668
Deductions	
Benefit payments	6,025,728
Fringe benefits	1,145,665
Administrative expenses	<u>447,431</u>
Total deductions	<u>7,618,824</u>
Net Increase	2,622,844
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>132,940,832</u>
End of year	<u><u>\$ 135,563,676</u></u>

City of Dearborn Heights, Michigan

Component Units Statement of Net Assets June 30, 2003

	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Assets				
Cash and cash equivalents (Note 3)	\$ 10,470,732	\$ -	\$ -	\$ 10,470,732
Due from primary government	39,554	790	-	40,344
Due from Agency Fund	-	-	45,925	45,925
Prepaid and other assets	6,611	-	-	6,611
Fixed assets (Note 5)	<u>24,290,779</u>	<u>-</u>	<u>-</u>	<u>24,290,779</u>
Total assets	34,807,676	790	45,925	34,854,391
Liabilities				
Accounts payable	1,163,512	-	-	1,163,512
Accrued liabilities	273,346	-	6,429	279,775
Due to primary government	155,347	-	-	155,347
Long-term debt (Note 7):				
Due within one year	585,000	-	-	585,000
Due in more than one year	<u>26,415,000</u>	<u>-</u>	<u>-</u>	<u>26,415,000</u>
Total liabilities	<u>28,592,205</u>	<u>-</u>	<u>6,429</u>	<u>28,598,634</u>
Net Assets				
Investment in capital assets - Net of related debt	(32,660)	-	-	(32,660)
Unrestricted	<u>6,248,131</u>	<u>790</u>	<u>39,496</u>	<u>6,288,417</u>
Total net assets	<u>\$ 6,215,471</u>	<u>\$ 790</u>	<u>\$ 39,496</u>	<u>\$ 6,255,757</u>

City of Dearborn Heights, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Tax Increment Finance Authority			
Public works	\$ 1,013,809	\$ -	\$ -
Public safety	31,616	-	-
Recreation and culture	194,643	-	-
Community and economic development	127,371	-	-
Interest expense and bond issue costs	1,349,123	-	-
Brownfield Redevelopment Authority - Public works	<u>6,429</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 2,722,991</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:			
Property taxes			
Interest			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

**Component Units
Statement of Activities
Year End June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (1,013,809)	\$ -	\$ -	\$ (1,013,809)
(31,616)	-	-	(31,616)
(194,643)	-	-	(194,643)
(127,371)	-	-	(127,371)
(1,349,123)	-	-	(1,349,123)
-	-	(6,429)	(6,429)
(2,716,562)	-	(6,429)	(2,722,991)
3,062,996	-	42,177	3,105,173
569,138	-	-	569,138
3,632,134	-	42,177	3,674,311
915,572	-	35,748	951,320
5,299,899	790	3,748	5,304,437
\$ 6,215,471	\$ 790	\$ 39,496	\$ 6,255,757

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Dearborn Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The City of Dearborn Heights is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a Board that is appointed by City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- (a) The Tax Increment Finance Authority (TIFA) was formed under Act 450 of the Public Acts of 1980 to develop south Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The Authority's governing body, which consists of 13 individuals, is appointed by the mayor.
- (b) The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents to the City. The Corporation's governing body, which consists of four individuals, is appointed by the mayor. This entity had no activity in the current year.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

- (c) The Brownfield Authority was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Dearborn Heights. The Brownfield Authority's governing body, which consists of 13 individuals, is comprised of the Tax Increment Finance Authority's board members. Currently, the Authority is in the preliminary stages of development.

Jointly Governed Organization - The City is a member of the Central Wayne County Sanitation Authority (the "Sanitation Authority"). The City appoints one member to this joint venture's governing board, which approves the annual budget. The debt of the joint venture is being financed by operations and member millage. During the current year, the City contributed approximately \$2,249,000 for its operations, which is reported in the Corporate Fund's expenditures. In addition, the City recorded an investment in joint ventures related to the Sanitation Authority of approximately \$638,000 in the government-wide statement of net assets. Complete financial statements for the Sanitation Authority can be obtained from the administrative offices at 4091 S. Inkster Road, Dearborn Heights, MI 48125.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary funds financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

Corporate Fund - The Corporate Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Streets Fund - The Major Streets Fund is a special revenue fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

Local Streets Fund - The Local Streets Fund is a special revenue fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special revenue funds account for the revenues and expenditures related to drug enforcement and traffic immobilization activities, Community Development Block Grant and other miscellaneous grant activity, building and housing commission activity, and library property tax revenue and expenditures.

Fire Station Bonds Fund - The Fire Station Bonds Fund is a debt service fund that accounts for the debt retirement activity of the Building Authority's fire station bonds. Resources of this fund are provided by the Corporate Fund.

Capital Projects Fund - The Capital Projects Fund accounts for the development of capital facilities and equipment other than those financed by the operations of a proprietary fund.

Pension Trust Funds - The Pension Trust Funds account for the activities of the police and fire employees' retirement system and general government employees, which accumulates resources for pension benefit payments to qualified employees.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

The effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

The proprietary fund distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for services. Operating expenses for the proprietary fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets consist of deposits at the county being held for construction and debt service of the City's water and sewer lines. The restricted assets result mainly from the issuance of debt, and net assets have been reserved for restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and a 10 percent salvage value is assumed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight line method over the following useful lives:

Roads, sidewalks, and street signs	10 to 20 years
Water systems	50 to 75 years
Sewer systems	40 to 50 years
Buildings and building improvements	50 years
Machinery, furniture, equipment, and vehicles	5 to 15 years
Library books	3 years

Compensated Absences (Vacation, Longevity, and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick, vacation pay, and longevity benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the fund financial statements only for employee terminations as of year end.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the Corporate Fund, Community Development Block Grant Fund, and the Major and Local Street Funds on an activity basis. The State Budget Act requires that budgets are adopted for all special revenue funds. The City does not adopt budgets for all special revenue funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses)”
- Reimbursements from other funds have been included in revenue, rather than a reduction of expenditures

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Any expenditures that exceed the budget must be approved by City Council through a budget amendment. The Council approves all budget amendments. During the current year, there were no significant budget amendments. All annual appropriations lapse at fiscal year end.

The budget process begins in December and January with the comptroller's office budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. These forms are due back to the comptroller's office by late January. The comptroller's office then analyzes these amounts and calculates the total budget.

In February, the mayor's office schedules meetings with all major departments to review their proposed budget and the budget is adjusted accordingly.

In late February and early March, the comptroller's office reviews the budget to verify that it balances. At this time, the mayor's office reschedules all major departments to do a final review of the departmental budgets. After the final review, the comptroller's office organizes the final proposed budget to deliver to City Council. The City Charter requires that the City Council receive the proposed budget by April 1.

During April and May, the City Council reviews the budget with the department heads. City Council meetings, held in April and May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the Council adopts the proposed budget by resolution.

The budget must be adopted by Council by the first Monday in June. After the budget has been adopted, all budget amendments must be approved by Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Corporate Fund incurred expenditures that were in excess of the amounts budgeted in the Cable Television Commission with a budget overrun of approximately \$116,000. This is due to approximately \$119,000 of capital outlay that was not budgeted.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated one bank for the deposit of City's funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs for the City's funds. The City's deposits and investment policy are in accordance with statutory authority.

The retirement systems' funds are also authorized by various State of Michigan laws to invest in certain corporate equity or debt instruments and certain other specified investment vehicles.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 8,030,629	\$ 6,195,760	\$ 10,676,052	\$ 24,902,441	\$ 10,470,732
Marketable securities	-	-	125,588,789	125,588,789	-
Cash held as collateral for securities lending	-	-	13,737,314	13,737,314	-
Restricted assets	-	5,997,488	-	5,997,488	-
Total	<u>\$ 8,030,629</u>	<u>\$ 12,193,248</u>	<u>\$ 150,002,155</u>	<u>\$ 170,226,032</u>	<u>\$ 10,470,732</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 30,897,729	\$ 10,470,732
Marketable securities	125,588,789	-
Cash held as collateral for securities lending	13,737,314	-
Petty cash or cash on hand	2,200	-
Total	<u>\$ 170,226,032</u>	<u>\$ 10,470,732</u>

The bank balance of primary government deposits is \$30,487,400, of which approximately \$816,000 is covered by federal depository insurance. The component units' deposits had a bank balance of \$10,642,803 of which approximately \$800,000 was covered by federal depository insurance.

As permitted by State statutes, and under the provisions of a securities lending authorization agreement, the Police and Fire Pension System Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The custodial bank of the Police and Fire System Trust Fund manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2003, only United States currency was received as collateral.

The Fire and Police Pension System Trust Fund did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The Fire and Police Pension System Trust Fund and the borrower maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2003 was 163 days. Because the loans are terminable on demand, their duration did not generally match the maturity date of investments made with cash collateral. The aggregate collateral held and the fair value of the underlying securities on loan for the Fire and Police Pension System Trust Fund as of June 30, 2003 were \$13,737,314 and \$13,190,010, respectively.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
U.S. government securities	\$ -	\$ 12,902,226	\$ -	\$ 12,902,226
Common stocks	-	52,766,961	-	52,766,961
Limited partnerships	-	879,592	-	879,592
Corporate bonds	-	34,337,060	-	34,337,060
Subtotal	<u>\$ -</u>	<u>\$ 100,885,839</u>	<u>\$ -</u>	100,885,839
Mutual funds				11,512,940
Investments held by broker-dealers and banks under securities loans:				
U.S. government securities				5,548,022
Common stocks				<u>7,641,988</u>
Total investments				<u>\$ 125,588,789</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments comply with the investment authority noted above. The mutual funds are registered with the SEC.

Included in City pension funds' investments at June 30, 2003 are the following:

- Approximately \$908,328 of securities issued by the Government National Mortgage Association (GNMA) and \$3,271,945 of securities issued by the Federal National Mortgage Association (FNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$1,094,938 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 237,804	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	261,643
Other	-	3,033
Total	<u>\$ 237,804</u>	<u>\$ 264,676</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,567,340	\$ -	\$ -	\$ 5,567,340
Construction in progress	-	454,527	-	454,527
Subtotal	5,567,340	454,527	-	6,021,867
Capital assets being depreciated:				
Roads, sidewalks, and street signs	34,587,594	2,030,459	300,000	36,318,053
Buildings and improvements	11,266,147	-	-	11,266,147
Machinery, equipment, and vehicles	7,781,726	247,869	342,270	7,687,325
Library books	2,707,000	-	-	2,707,000
Subtotal	56,342,467	2,278,328	642,270	57,978,525
Accumulated depreciation:				
Roads, sidewalks, and street signs	8,161,858	1,651,148	300,000	9,513,006
Buildings and improvements	3,764,698	202,170	-	3,966,868
Machinery, equipment, and vehicles	4,321,108	600,855	235,997	4,685,966
Library books	2,436,300	-	-	2,436,300
Subtotal	18,683,964	2,454,173	535,997	20,602,140
Net capital assets being depreciated	37,658,503	(175,845)	106,273	37,376,385
Net capital assets	\$ 43,225,843	\$ 278,682	\$ 106,273	\$ 43,398,252

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

	Balance July 1, 2002	Additions	Disposals	Balance June 30, 2003
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 451,171	\$ -	\$ -	\$ 451,171
Construction in progress	55,231	54,673	-	109,904
Subtotal	506,402	54,673	-	561,075
Capital assets being depreciated:				
Water system	17,147,354	384,928	38,492	17,493,790
Sewer system	88,909,578	106,845	10,685	89,005,738
Buildings and building improvements	438,694	-	-	438,694
Equipment, vehicles, furniture, and fixtures	3,156,278	58,886	-	3,215,164
Subtotal	109,651,904	550,659	49,177	110,153,386
Accumulated depreciation:				
Water system	5,852,062	420,744	38,492	6,234,314
Sewer system	10,669,243	1,787,516	10,685	12,446,074
Buildings and building improvements	349,845	8,918	-	358,763
Equipment, vehicles, furniture, and fixtures	2,564,826	226,795	-	2,791,621
Subtotal	19,435,976	2,443,973	49,177	21,830,772
Net capital assets being depreciated	90,215,928	(1,893,314)	-	88,322,614
Net capital assets	\$ 90,722,330	\$ (1,838,641)	\$ -	\$ 88,883,689

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 72,705
Public safety	409,466
Public works	1,873,058
Recreation and culture	98,944
Total governmental activities	\$ 2,454,173
Business-type activities - Water and sewer	\$ 2,443,973

Public works related capital expenditures incurred by the Tax Increment Finance Authority, a component unit of the City, resulting in assets that are maintained by the Water and Sewer Fund of the City are recorded as assets of the Water and Sewer Fund. A correlating revenue related to capital contributions is reflected in the Water and Sewer Fund in the year the expenditure is incurred by the Tax Increment Finance Authority.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

Component Unit - Tax Increment Finance Authority

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,767,640	\$ -	\$ -	\$ 2,767,640
Construction in progress	9,493,835	8,829,304	-	18,323,139
Subtotal	12,261,475	8,829,304	-	21,090,779
Capital assets being depreciated - Roads	5,000,000	-	-	5,000,000
Accumulated depreciation - Roads	1,600,000	200,000	-	1,800,000
Net capital assets being depreciated	3,400,000	(200,000)	-	3,200,000
Net capital assets	\$ 15,661,475	\$ 8,629,304	\$ -	\$ 24,290,779

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Corporate Fund	Major Streets Fund	\$ 274,104
Corporate Fund	Local Streets Fund	208,653
Corporate Fund	Water and Sewer Fund	71,737
Corporate Fund	Other non-major funds	7,753
Total Corporate Fund		562,247
Other nonmajor funds	Corporate Fund	527,722
Total governmental funds		\$ 1,089,969

Interfund Transfers - The Corporate Fund transferred \$231,543 to the Fire Station Bonds Fund, a nonmajor debt service fund, for current year payments on those bonds. The Library Fund, a nonmajor special revenue fund, transferred \$454,528 to the nonmajor Capital Projects Fund for the architect fees associated with the construction of the two new libraries.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bonds:							
Contractual obligation - Ecorse Creek							
Pollution Abatement Refunding Bonds	2004	6.00%	\$ 227,879	\$ -	\$ 111,536	\$ 116,343	\$ 116,343
Building Authority Fire Station Bonds	2028	4.75-5.15%	3,355,000	-	65,000	3,290,000	70,000
Energy Savings Plan note payable	2006	6.10%	310,000	-	70,000	240,000	75,000
Installment purchase contract	2008	4.90%	615,000	-	90,000	525,000	95,000
Total governmental activities			<u>\$ 4,507,879</u>	<u>\$ -</u>	<u>\$ 336,536</u>	<u>\$ 4,171,343</u>	<u>\$ 356,343</u>
Business-type activities:							
General obligation bonds:							
Wayne County North Huron Valley -							
Rouge Valley Refunding Bonds	2009	5.60-6.00%	\$ 3,030,165	\$ -	\$ 363,480	\$ 2,666,685	\$ 377,460
Limited Tax Wastewater Disposal System							
Refunding Bonds	2010	4.70-4.90%	3,730,000	-	380,000	3,350,000	400,000
Wayne County Rouge Valley Wasterwater							
Control System Bonds	2005	6.20-7.00%	1,475,000	-	460,000	1,015,000	490,000
Wayne County Rouge Valley Wasterwater							
Control System Bonds	2017	3.75-4.85%	10,545,000	-	100,000	10,445,000	105,000
County contractual obligations:							
State Revolving Loan Fund	2016	2.25%	1,975,000	-	120,000	1,855,000	125,000
State Revolving Loan Fund	2016	2.25%	692,655	-	47,988	644,667	48,919
State Revolving Loan Fund	2021	2.25%	20,045,244	-	957,240	19,088,004	979,691
State Revolving Loan Fund	2022	2.25%	232,214	-	9,961	222,253	9,773
State Revolving Loan Fund	2021	2.25%	5,138,952	-	218,995	4,919,957	224,261
Wayne County Sewage Disposal Bonds -							
Series A and B	2004	6.30%	64,000	-	31,000	33,000	33,000
Downriver Sewage Disposal Bonds -							
Series A Refunding	2014	4.50-5.125%	511,111	-	4,076	507,035	4,377
Downriver Sewage Disposal							
Completion Bonds	2019	4.50-5.125%	1,059,134	-	42,078	1,017,056	43,973
Subtotal			48,498,475	-	2,734,818	45,763,657	2,841,454
Less deferred charge on refunding			1,361,528	-	110,470	1,251,058	-
Total business-type activities			<u>\$ 47,136,947</u>	<u>\$ -</u>	<u>\$ 2,624,348</u>	<u>\$ 44,512,599</u>	<u>\$ 2,841,454</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Long-term Debt (Continued)

Long-term debt for the component units is as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities - General obligation bonds:							
Limited Tax Development Bonds	2009	5.70-6.30%	\$ 3,400,000	\$ -	\$ 450,000	\$ 2,950,000	\$ 450,000
Limited Tax Development Bonds	2019	4.75-5.00%	3,180,000	-	130,000	3,050,000	135,000
Tax Increment Bonds, Series 2001-A	2031	4.25-5.00%	21,000,000	-	-	21,000,000	-
Total general obligations			<u>\$ 27,580,000</u>	<u>\$ -</u>	<u>\$ 580,000</u>	<u>\$ 27,000,000</u>	<u>\$ 585,000</u>

Annual debt service requirements to maturity for the above governmental, business-type, and component units bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 356,343	\$ 205,941	\$ 562,284	\$ 2,841,454	\$ 1,533,882	\$ 4,375,336	\$ 585,000	\$ 1,316,591	\$ 1,901,591
2005	250,000	190,803	440,803	2,972,846	1,381,385	4,354,231	940,000	1,276,985	2,216,985
2006	265,000	177,489	442,489	3,106,277	1,270,531	4,376,808	1,020,000	1,227,547	2,247,547
2007	190,000	163,380	353,380	3,202,277	1,158,995	4,361,272	1,050,000	1,173,760	2,223,760
2008	195,000	154,090	349,090	3,303,287	1,043,090	4,346,377	1,110,000	1,117,086	2,227,086
2009-2013	475,000	677,072	1,152,072	14,418,094	3,531,086	17,949,180	3,955,000	4,923,389	8,878,389
2014-2018	610,000	545,263	1,155,263	12,943,832	1,285,381	14,229,213	4,525,000	3,997,817	8,522,817
2019-2023	795,000	370,819	1,165,819	2,975,590	99,540	3,075,130	4,540,000	2,920,266	7,460,266
2024-2028	1,035,000	139,179	1,174,179	-	-	-	5,300,000	1,676,250	6,976,250
2029-2033	-	-	-	-	-	-	3,975,000	306,875	4,281,875
Total	<u>\$ 4,171,343</u>	<u>\$ 2,624,036</u>	<u>\$ 6,795,379</u>	<u>\$ 45,763,657</u>	<u>\$ 11,303,890</u>	<u>\$ 57,067,547</u>	<u>\$ 27,000,000</u>	<u>\$ 19,936,566</u>	<u>\$ 46,936,566</u>

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2003, approximately \$12.8 million of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Restricted assets at June 30, 2003 consist of deposits at the county being held for water and sewer line construction and debt payments of \$5,997,488.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal Risk Management Authority for claims relating to general liability, auto liability, auto physical damage, and property loss claims; the City is uninsured for workers' compensation claims within certain limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (the "Risk Management Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Risk Management Authority that the Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for workers' compensation and general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation	General Liability
Estimated liability - July 1, 2001	\$ 297,933	\$ 1,353,182
Estimated claims incurred, including changes in estimates	217,640	(17,480)
Claim payments	(241,843)	(365,905)
Estimated liability - June 30, 2002	273,730	969,797
Estimated claims incurred, including changes in estimates	(161,821)	161,562
Claim payments	161,821	(258,295)
Estimated liability - June 30, 2003	<u>\$ 273,730</u>	<u>\$ 873,064</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Risk Management (Continued)

The City is involved in litigation related to various other matters. At the current time, the outcome or potential liability related to these matters cannot be determined. In addition, the extent of insurance coverage related to these matters cannot be determined at this time.

Note 10 - Defined Benefit Pension Plan

General Government Employees' Retirement System

Plan Description - The General Government Employees' Retirement System (the "General System") is a single-employer defined benefit pension plan that is administered by the Pension Committee for the General Government Employees' Retirement System. This plan covers all full-time employees of the City. The General System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 131 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 152 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the General System for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are paid for by the Corporate Fund.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2003, the City was not required to make a contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 15 years.

Reserves - As of June 30, 2003, the plan's required reserves have been funded as follows:

Legally required reserves - Reserve for retiree benefit payments	\$ 15,431,881
Additional reserves - Reserve for employer contributions	<u>16,279,795</u>
Total reserves	<u>\$ 31,711,676</u>

	Fiscal Year Ended December 31		
	2001	2002	2003
Annual pension costs (APC)	\$ 106,675	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Policemen and Firemen Retirement System

Plan Description - The Policemen and Firemen Retirement System (the "Police and Fire System") is a single-employer defined benefit pension plan that is administered by the Pension Committee for the Policemen and Firemen Retirement System. This plan covers all full-time police and fire employees of the City. The Police and Fire System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 138 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 144 current active employees. The plan does not issue a separate financial report.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 10 - Defined Benefit Pension Plan (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the Police and Fire System for these employees was established by negotiation with the City's competitive bargaining units and required a contribution from the policemen, police supervisors, and firemen of 5 percent, 5.5 percent, and 5 percent, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through contributions to the plan.

Annual Pension Cost - For the year ended June 30, 2003, the City's annual pension cost of \$617,806 for the plan was equal to the City's required and actual contribution. In addition, the City contributed approximately \$1,150,000 for retiree medical expenses and \$575,000 for administrative costs of the plan. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 15 years.

Reserves - As of June 30, 2003, the plan's required reserves have been funded as follows:

Legally required reserves:

Reserve for employees' contributions	\$ 6,963,840
Reserve for retiree benefit payments	46,853,414
Additional reserves - Reserve for employer contributions	<u>50,034,746</u>
Total reserves	<u>\$ 103,852,000</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 10 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended December 31		
	2001	2002	2003
Annual pension costs (APC)	\$ 522,322	\$ 494,535	\$ 617,806
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

In a prior period, the Police and Fire System assumed the reporting responsibility for the payment of postemployment health benefits for retired police and fire employees that were previously recorded as an expenditure in the Corporate Fund. During the year ended June 30, 2003, the City's Corporate Fund contributed, and the Police and Fire System expensed, postemployment benefits totaling \$1,150,000. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 271 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with partial contributions required by some of the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due (which is not an actuarially determined amount); during the year, this totaled approximately \$704,000 in the Corporate Fund and \$1,150,000 in the Policemen and Firemen Retirement System.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 12 - Reserved and Unreserved Fund Balances

Fund balances have been reserved for the following purposes:

	Corporate Fund	Capital Projects Fund
Debt service and other	\$ 456,979	\$ -
Capital projects	-	76,516
Cable improvements	180,918	-
Total	<u>\$ 637,897</u>	<u>\$ 76,516</u>

Fund balances have been designated for the following purposes:

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Funds	Component Units
Designated:					
Working capital purposes	\$ 1,342,521	\$ -	\$ -	\$ -	\$ -
Insurance claims	399,794	-	-	-	-
Retiree benefit	285,781	-	-	-	-
Capital projects	-	-	-	-	3,578,000
Total designated	2,028,096	-	-	-	3,578,000
Undesignated	(280,750)	978,508	1,787,484	2,778,161	-
Total unreserved fund balance	<u>\$ 1,747,345</u>	<u>\$ 978,508</u>	<u>\$ 1,787,484</u>	<u>\$ 2,778,161</u>	<u>\$ 3,578,000</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2002	\$ (10,739)
Current-year building permit revenue	550,157
Related expenditures:	
Direct costs	\$ 406,284
Estimated indirect costs	<u>150,457</u>
Total construction code expenditures	<u>556,741</u>
Cumulative shortfall at June 30, 2003	<u><u>\$ (17,323)</u></u>

Note 14 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities were required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the projects is approximately \$280,000,000, with the City's share estimated to be approximately \$34,000,000. To date, the City has issued approximately \$33,300,000 in debt to fund this project. In addition, the City will have other significant sewer commitments under the Clean Water Act; the amount of these commitments cannot presently be determined. To date, approximately \$12,592,000 has been collected through the property tax levy for debt payments.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 14 - Commitment (Continued)

Construction Commitments - The City has active construction projects at year-end. The City has the reconstruction of the Caroline Kennedy Library and the John F. Kennedy, Jr. Library in process at year end. A component unit of the City has the police and court facility in process at year end. At year end, the City's commitment with contractors is as follows:

	Spent to Date	Remaining Commitment
Primary government - Libraries	\$ 454,527	\$ -
Component units - Police and court facility	\$ 18,323,139	\$ 911,980

Note 15 - New Reporting Model

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of infrastructure in the current year.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 16 - Subsequent Event

During September 2003, the bond holders of the partnership that operates the Central Wayne County Sanitation Authority did not release the funds necessary for the partnership to meet operating obligations. Consequently, the Sanitation Authority had to cease operations. The Sanitation Authority was responsible for 4.8 percent of the City's water and sewer billings in the current year. The taxable value of the Sanitation Authority is captured in its entirety by the Tax Increment Finance Authority, where it accounts for 20.4 percent of the TIFA's captured taxable value. The future of the Sanitation Authority is unknown at this time.

Required Supplemental Information

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund June 30, 2003

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Fund Balance - Beginning of year	\$ 2,423,182	\$ 2,423,182	\$ 2,423,182	\$ -
Resources (inflows):				
Property taxes	16,550,669	16,550,669	16,358,592	(192,077)
State-shared revenue	7,266,448	7,331,559	6,903,572	(427,987)
Reimbursement from other funds	3,715,000	3,715,000	2,812,708	(902,292)
Licenses and permits	863,000	863,000	942,784	79,784
Interest earned	175,000	175,000	170,414	(4,586)
Court costs, fines, and violations	2,175,000	2,175,000	2,218,992	43,992
Charges for services	1,154,500	1,581,310	1,894,124	312,814
Miscellaneous	1,577,250	1,577,250	1,474,778	(102,472)
Total available for appropriation	33,476,867	33,968,788	32,775,964	(1,192,824)
Charges to appropriations (outflows):				
General government:				
Legislative	81,460	81,460	76,393	5,067
Executive	347,492	347,492	305,317	42,175
Elections	123,408	123,408	81,899	41,509
Treasurer's office	359,576	359,576	322,642	36,934
City Clerk's office	231,663	232,373	229,503	2,870
Comptroller's office	395,037	395,037	393,332	1,705
Assessor's office	329,600	330,200	311,847	18,353
Civil Service Commission	11,949	11,949	1,574	10,375
Board of Appeals	9,812	9,812	8,011	1,801
Building Authority	1,057	1,057	-	1,057
Civil Service - Act No. 78	12,980	12,980	8,249	4,731
Data processing	75,000	75,000	69,217	5,783
Personnel	147,027	147,027	89,013	58,014
General government	5,140,000	5,369,568	5,287,757	81,811
General Government Employees'				
Pension Commission	201,924	201,924	142,745	59,179
Public safety:				
Judicial	1,304,113	1,304,113	1,245,134	58,979
Police department	10,477,690	10,492,690	10,218,983	273,707
Fire department	4,974,129	5,164,129	4,996,703	167,426
Protective inspection	783,858	883,458	816,320	67,138
Corporation counsel	163,500	163,500	159,349	4,151
Public works:				
Building maintenance	967,798	967,798	889,971	77,827
Sanitation	3,952,700	3,952,700	3,910,175	42,525
Highways, streets, and bridges	2,032,549	2,032,549	1,927,275	105,274
Community and economic development:				
Planning Commission	14,457	14,457	8,607	5,850
Cable TV Commission	51,514	51,714	168,015	(116,301)

City of Dearborn Heights, Michigan

Required Supplemental Information (Continued) Budgetary Comparison Schedule - Corporate Fund June 30, 2003

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Charges to appropriations (outflows) (Continued):				
Recreation and culture:				
Recreation	\$ 730,675	\$ 735,875	\$ 647,907	\$ 87,968
Young Recreation Center	326,399	326,399	265,348	61,051
Historical museum	1,500	1,500	1,075	425
Transfers to other funds	228,000	231,543	231,543	-
Total charges to appropriations	33,476,867	34,021,288	32,813,904	1,207,384
Fund Balance - End of year	\$ 2,423,182	\$ 2,370,682	\$ 2,385,242	\$ 14,560

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds June 30, 2003

	Major Street Fund			
	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Fund Balance - Beginning of year	\$ 498,946	\$ 498,946	\$ 498,946	\$ -
Resources (inflows):				
Federal sources	2,843,324	2,843,324	808,225	(2,035,099)
State sources	2,468,495	2,468,495	2,386,890	(81,605)
Local sources	477,027	477,027	69,849	(407,178)
Interest income	20,000	20,000	10,175	(9,825)
Transfer from other funds	410,000	410,000	-	(410,000)
Total available for appropriation	6,218,846	6,218,846	3,275,139	(2,943,707)
Charges to appropriations (outflows) - Public works:				
Street maintenance	1,350,000	1,350,000	944,871	405,129
Winter maintenance	295,000	295,000	365,410	(70,410)
Administration	250,000	250,000	187,846	62,154
Traffic services	35,000	35,000	15,554	19,446
Street and bridge construction	4,545,731	4,545,731	1,281,896	3,263,835
Total charges to appropriations	6,475,731	6,475,731	2,795,577	3,680,154
Fund Balance - End of year	\$ 242,061	\$ 242,061	\$ 978,508	\$ 736,447
	Local Street Fund			
	Original Budget	Amended Budget	Actual	Variance from Amended Budget
Fund Balance - Beginning of year	\$ 1,759,905	\$ 1,759,905	\$ 1,759,905	\$ -
Resources (inflows):				
State sources	880,000	880,000	917,929	37,929
Local sources	225,000	225,000	279,394	54,394
Interest income	35,000	35,000	26,298	(8,702)
Miscellaneous revenue	4,500	4,500	5,356	856
Total available for appropriation	1,144,500	1,144,500	1,228,977	84,477
Charges to appropriations (outflows) - Public works:				
Street maintenance	560,000	560,000	451,999	108,001
Winter maintenance	15,000	15,000	9,026	5,974
Administration	130,000	130,000	79,041	50,959
Traffic services	60,000	60,000	100,713	(40,713)
Street and bridge construction	931,500	931,500	560,619	370,881
Transfer to other funds	410,000	410,000	-	410,000
Total charges to appropriations	2,106,500	2,106,500	1,201,398	905,102
Fund Balance - End of year	\$ 797,905	\$ 797,905	\$ 1,787,484	\$ 989,579

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Government Employees' Retirement System						
6/30/98	\$ 24,881,228	\$ 22,984,987	\$ (1,896,241)	108.25	\$ 4,560,767	(41.58)
6/30/99	26,962,766	24,073,469	(2,889,297)	112.00	4,452,359	(64.89)
6/30/00	29,253,189	25,590,545	(3,662,644)	114.31	4,984,607	(73.48)
6/30/01	37,855,086	29,355,631	(8,499,455)	128.95	5,393,871	(157.58)
6/30/02	40,008,468	30,990,667	(9,017,801)	129.10	5,860,613	(153.87)
6/30/03	34,543,090	32,352,969	(2,190,121)	106.77	5,397,409	(40.58)
Policemen and Firemen Retirement System						
6/30/98	\$ 70,723,406	\$ 71,783,620	\$ 1,060,214	98.52	\$ 7,923,628	13.38
6/30/99	78,903,103	76,216,724	(2,686,379)	103.52	8,500,123	(31.60)
6/30/00	86,178,705	79,968,280	(6,210,425)	107.77	8,706,539	(71.33)
6/30/01	91,879,860	84,734,677	(7,145,183)	108.43	9,112,748	(78.41)
6/30/02	98,858,861	90,946,241	(7,912,620)	108.70	9,651,854	(81.98)
6/30/03	92,930,343	91,993,127	(937,216)	101.02	9,650,586	(9.71)

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2003

The schedule of employer contributions is as follows:

General Government Employees' Retirement System

Fiscal Year Ended 6/30	Annual Required Contribution*	Percentage Contributed
1998	\$ 483,745	100.0
1999	298,535	100.0
2000	166,916	100.0
2001	106,675	100.0
2002	-	100.0
2003	-	100.0

Policemen and Firemen Retirement System

Fiscal Year Ended 6/30	Annual Required Contribution*	Percentage Contributed
1998	\$ 1,321,464	100.0
1999	1,185,429	100.0
2000	880,063	100.0
2001	522,322	100.0
2002	494,535	100.0
2003	617,806	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2001, the latest actuarial valuation, follows:

General Government Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level dollar
Amortization period (perpetual)	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

Policemen and Firemen Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level dollar
Amortization period (perpetual)	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

Other Supplemental Information

City of Dearborn Heights, Michigan

	Nonmajor Special			
	Drug	Miscellaneous	Community	
	Enforcement	Grants	Development	
			Block Grant	Building
Assets				
Cash and cash equivalents	\$ 63,820	\$ 6,924	\$ 325	\$ -
Due from other governmental units	-	31,500	7,753	-
Due from other funds	-	223,219	-	291,087
Due from component units	-	-	-	-
Total assets	<u>\$ 63,820</u>	<u>\$ 261,643</u>	<u>\$ 8,078</u>	<u>\$ 291,087</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 400	\$ -	\$ -	\$ -
Due to other funds	-	-	7,753	-
Escrow deposits	-	-	325	-
Deferred revenue	-	261,643	-	-
Total liabilities	400	261,643	8,078	-
Fund Balances				
Reserved for capital projects	-	-	-	-
Undesignated, reported in Special Revenue Funds	63,420	-	-	291,087
Total fund balance	63,420	-	-	291,087
Total liabilities and fund balances	<u>\$ 63,820</u>	<u>\$ 261,643</u>	<u>\$ 8,078</u>	<u>\$ 291,087</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

Revenue Funds			Nonmajor Debt		
Housing Commission	Traffic Immobilization	Library	Service Fund - Fire Station Bonds	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 3,033	\$ 1,767	\$ 2,839,613	\$ -	\$ 76,516	\$ 2,991,998
-	-	-	-	-	39,253
-	-	13,416	-	-	527,722
-	-	154,921	-	-	154,921
\$ 3,033	\$ 1,767	\$ 3,007,950	\$ -	\$ 76,516	\$ 3,713,894
\$ -	\$ -	\$ 586,063	\$ -	\$ -	\$ 586,463
-	-	-	-	-	7,753
-	-	-	-	-	325
3,033	-	-	-	-	264,676
3,033	-	586,063	-	-	859,217
-	-	-	-	76,516	76,516
-	1,767	2,421,887	-	-	2,778,161
-	1,767	2,421,887	-	76,516	2,854,677
\$ 3,033	\$ 1,767	\$ 3,007,950	\$ -	\$ 76,516	\$ 3,713,894

City of Dearborn Heights, Michigan

	Nonmajor Special		
	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant
Revenues			
General property taxes	\$ -	\$ -	\$ -
Intergovernmental revenue:			
Federal grants	-	62,637	2,090,440
State-shared revenues, grants, and other State aid	-	84,572	-
Interest income	1,255	-	-
Fines and other forfeitures	-	-	-
Drug enforcement revenue	113,018	-	-
Total revenues	114,273	147,209	2,090,440
Expenditures			
Current:			
Grant-related expenditures:			
General government	-	-	237,872
Public works	-	-	1,078,501
Public safety	-	62,637	20,000
Recreation	-	84,572	494,865
Community and economic development	-	-	259,202
Drug enforcement	159,617	-	-
Library expenses	-	-	-
Other	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
Total expenditures	159,617	147,209	2,090,440
Excess of Revenues Over (Under) Expenditures	(45,344)	-	-
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balances	(45,344)	-	-
Fund Balances - July 1, 2002	108,764	-	-
Fund Balances - June 30, 2003	<u>\$ 63,420</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2003

Revenue Funds				Nonmajor Debt Service Fund - Fire Station Bonds	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Building	Housing Commission	Traffic Immobilization	Library			
\$ -	\$ -	\$ -	\$ 1,401,225	\$ -	\$ -	\$ 1,401,225
-	-	-	-	-	-	2,153,077
-	-	-	189,993	-	-	274,565
-	49	-	43,574	-	1,156	46,034
274,123	-	1,425	-	-	-	275,548
-	-	-	-	-	-	113,018
274,123	49	1,425	1,634,792	-	1,156	4,263,467
-	-	-	-	-	-	237,872
-	-	-	-	-	-	1,078,501
-	-	-	-	-	-	82,637
-	-	-	-	-	-	579,437
-	49	-	-	-	-	259,251
-	-	-	-	-	-	159,617
-	-	-	622,741	-	-	622,741
273,773	-	75	-	-	-	273,848
-	-	-	-	-	454,528	454,528
-	-	-	-	231,543	-	231,543
273,773	49	75	622,741	231,543	454,528	3,979,975
350	-	1,350	1,012,051	(231,543)	(453,372)	283,492
-	-	-	-	231,543	454,528	686,071
-	-	-	(454,528)	-	-	(454,528)
-	-	-	(454,528)	231,543	454,528	231,543
350	-	1,350	557,523	-	1,156	515,035
290,737	-	417	1,864,364	-	75,360	2,339,642
<u>\$ 291,087</u>	<u>\$ -</u>	<u>\$ 1,767</u>	<u>\$ 2,421,887</u>	<u>\$ -</u>	<u>\$ 76,516</u>	<u>\$ 2,854,677</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds Year Ended June 30, 2003

	General Government Employees' Retirement System	Policemen and Firemen Retirement System	Totals
Assets			
Cash and cash equivalents	\$ 5,906,086	\$ 4,626,093	\$ 10,532,179
Marketable securities	25,629,048	99,959,741	125,588,789
Cash held as collateral for securities lending	-	13,737,314	13,737,314
Other receivables	176,542	-	176,542
Total assets	31,711,676	118,323,148	150,034,824
Liabilities			
Accounts payable	-	733,834	733,834
Collateral for securities lending	-	13,737,314	13,737,314
Total liabilities	-	14,471,148	14,471,148
Net Assets - Held in trust for employees' retirement systems	<u>\$ 31,711,676</u>	<u>\$ 103,852,000</u>	<u>\$ 135,563,676</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenses, and Changes in Net Assets Pension Trust Funds Year Ended June 30, 2003

	General Government Employees' Retirement System	Policemen and Firemen Retirement System	Totals
Additions			
Investment income:			
Interest and dividends	\$ 1,179,998	\$ 3,069,146	\$ 4,249,144
Net increase in fair value of investments	<u>457,136</u>	<u>2,658,840</u>	<u>3,115,976</u>
Net investment income	1,637,134	5,727,986	7,365,120
Contributions:			
Employer	-	2,342,806	2,342,806
Employee	<u>-</u>	<u>492,924</u>	<u>492,924</u>
Total contributions	-	2,835,730	2,835,730
Securities lending income:			
Interest and fees	-	212,488	212,488
Less borrower rebates and bank fees	<u>-</u>	<u>(171,670)</u>	<u>(171,670)</u>
Net securities lending income	<u>-</u>	<u>40,818</u>	<u>40,818</u>
Total additions	1,637,134	8,604,534	10,241,668
Deductions			
Benefit payments	1,545,691	4,480,037	6,025,728
Fringe benefits	-	1,145,665	1,145,665
Administrative expenses	<u>-</u>	<u>447,431</u>	<u>447,431</u>
Total deductions	<u>1,545,691</u>	<u>6,073,133</u>	<u>7,618,824</u>
Net Increase	91,443	2,531,401	2,622,844
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>31,620,233</u>	<u>101,320,599</u>	<u>132,940,832</u>
End of year	<u>\$ 31,711,676</u>	<u>\$ 103,852,000</u>	<u>\$ 135,563,676</u>